

ABG Shipyard Limited

Q4 FY2008
Result Update

Results Highlights

ABG Shipyard Limited (ABG) reported a stable Q-o-Q performance for the fourth quarter of FY2008. While maintaining revenues at Rs. 2766.8 Mn. for Q4FY08, the company saw a minor dip of 2.2% in PAT from Rs. 471.2 Mn. in Q3FY08 to Rs. 460.5 Mn. in Q4FY08. ABG (in absolute terms) witnessed more than 100% jump in its Employee Cost & ~31% jump in Other Expenses on a Q-o-Q basis. The Interest cost for the fourth quarter was also higher by almost 90% from Rs. 99.2 Mn. in Q3FY08 to Rs. 188.6 Mn. in Q4FY08.

On a Y-o-Y basis however, the company has reported very good set of numbers. Operating Revenues grew at ~43.3% from Rs. 1,930.7 Mn. in Q4FY07 to Rs. 2,766.8 Mn. in Q4FY08. Corresponding to this, the company reported an increase of 39.6% in PAT levels. Employee Cost rose by a whopping 277% while Other Expenses rose by more than 50% on a Y-o-Y basis. Interest cost also rose by more than 100% Y-o-Y from Rs. 92.7 Mn. in Q4FY07 to Rs. 188.6 Mn. in Q4FY08.

For the twelve months ended 31st March 2008, the company has been able to deliver results better than our estimates.

Events in the Fourth Quarter

During Q4FY08, ABG delivered a 90 tonne AHTSV "Lamnalco Mallard" to the Lamnalco Group, UAE. The company has so far delivered 8 vessels including this, to the Lamnalco Group.

During the month of March, ABG Shipyard also received an amount of Rs. 127.96 Mn. towards shipbuilding subsidy from the Ministry of Shipping, Road Transport & Highways, Government of India. This is the second installment that the company has received towards subsidy from the Shipping Ministry.

Company Profile

ABG is the India's largest private sector shipyard and has delivered over 95 ships of various types to both domestic & international customers since its inception in 1990. ABG is an established manufacturer of marine ships including bulk carriers, deck barriers, interceptor boats, anchor handling supply ships, driving support ships, tugs and offshore vessels. ABG has its shipbuilding facility at Magdala near Surat. Apart from expanding its capacity at this Surat yard, it is also setting up a shipyard at Dahej to manufacture large size (upto 1,20,000 DWT) ships mainly for the dry-bulk segment at a total cost of Rs. 4 billion. In a second expansion phase at the same Dahej yard, ABG plans to manufacture rigs. Rigs should be highly profitable considering its demand coming directly from the Oil & Gas industry.

ABG has also acquired Vipul Shipyard earlier this year. ABG sometime ago had acquired a ship repair company, Crossocean Ship Repair Limited FZE, UAE in the Middle East. It also plans to set-up another ship repair yard on the Eastern coast.

ABG has an order-book of approximately Rs. 8,500 crores as of 12th June 2008.

Our View...

The stock price of ABG has seen a significant correction over the past two months or so. This can be attributed partly to the overall correction that the market has witnessed & partly to the slowdown expected in the shipping sector by some market participants.

We, however maintain our positive view on the shipbuilding sector & the company going forward. We believe that ABG has an order book of 3 - 3.5 years forward sales which gives that kind of long term revenue visibility. Also, looking at the order book for the company, the clients that have placed orders with ABG are all genuine shipping & offshore companies (non-speculative buyers), who have placed their orders in view of the increased demand for shipping & offshore supply vessels. Hence, we do not expect any orders for ABG to be cancelled by these clients.

We believe that the earnings growth would continue to be robust in the coming years. With over 3 years of business in hand, there is no case of desperation for the Indian shipbuilding companies like ABG. The scrip currently trades at 8.5x FY10E earnings of Rs. 52.5 per share. We maintain our BUY rating for this stock.

ABG Shipyard Limited : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	Q407	Y-Y(%)	12M08	12M07	Y-Y(%)
Net Revenues	2,766.8	2,749.6	0.63%	1,930.7	43.31%	9,668.4	7,043.6	37.26%
Cost of Materials	1,308.3	1,550.8	-15.64%	1,121.5	16.65%	5,353.6	4,210.5	27.15%
Gross Profit	1,458.5	1,198.8	21.66%	809.2	80.25%	4,314.8	2,833.1	52.30%
Employee Cost	137.5	67.1	104.85%	36.5	276.89%	293.1	148.6	97.26%
Other Expenses	414.6	316.0	31.22%	275.9	50.28%	1,105.0	745.8	48.17%
Total Expenditure	552.0	383.1	44.11%	312.4	76.74%	1,398.1	894.4	56.33%
Operating Profit	906.5	815.8	11.12%	496.8	82.46%	2,916.7	1,938.7	50.44%
OPM (%)	32.76%	29.67%		25.73%		30.17%	27.52%	
Other Income	19.7	19.8	-0.39%	29.0	-32.00%	74.0	68.7	7.69%
EBITDA	926.2	835.6	10.85%	525.9	76.14%	2,990.7	2,007.5	48.98%
Depreciation	20.3	19.8	2.30%	17.0	19.53%	74.0	59.3	24.78%
EBIT	906.0	815.8	11.06%	508.9	78.02%	2,916.7	1,948.2	49.72%
Interest	188.6	99.2	90.24%	92.7	103.60%	457.1	266.8	71.32%
PBT	717.3	716.6	0.10%	416.3	72.33%	2,459.6	1,681.3	46.29%
Tax	256.8	245.5	4.62%	86.4	197.27%	852.8	518.4	64.49%
Current Tax	81.1	81.2	-0.11%	52.1	55.79%	278.5	194.0	43.55%
Fringe Benefit Tax	1.6	1.8	-10.89%	1.9	-17.53%	5.2	3.9	34.89%
Deferred Tax	200.0	162.5	23.13%	124.9	60.11%	595.0	413.1	44.03%
MAT Credit Entitlement	(30.0)	0.0		(100.0)		(30.0)	(100.0)	
Adjustments for Previous Year	4.1	0.0		7.5		4.1	7.5	
PAT	460.5	471.2	-2.26%	329.9	39.61%	1,606.8	1,162.9	38.17%
Equity Capital	509.2	509.2		509.2		509.2	509.2	
EPS	9.0	9.3	-2.26%	6.5	39.61%	31.6	22.8	38.17%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	Q407	Y-Y(bps)	12M08	12M07	Y-Y(bps)
OPM (%)	32.8%	29.7%	309.49	25.7%	703.00	30.2%	27.5%	264.24
EBITDA (%)	33.5%	30.4%	308.77	27.2%	623.97	30.9%	28.5%	243.22
EBIT (%)	32.7%	29.7%	307.56	26.4%	638.54	30.2%	27.7%	250.88
PAT (%)	16.6%	17.1%	(49.10)	17.1%	(44.07)	16.6%	16.5%	10.91
Operational Parameters								
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	Q407	Y-Y(bps)	12M08	12M07	Y-Y(bps)
RM Consumed	47.3%	56.4%	(911.58)	58.1%	(1,080.38)	55.4%	59.8%	(440.58)
Staff Cost	5.0%	2.4%	252.75	1.9%	307.89	3.0%	2.1%	92.20
Other Expenditure	15.0%	11.5%	349.34	14.3%	69.50	11.4%	10.6%	84.13
Effective Tax Rate	35.8%	34.3%	154.84	20.8%	1,504.61	34.7%	30.8%	383.69

ABG Shipyard Limited : Financials

Earnings Statement											
Particulars (Rs Mn)	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Revenues (Excl Subsidy)	3,255.8	4,687.4	6,242.2	8,851.6	13,946.1	20,863.1	33,684.4	40,727.0	47,421.6	49,066.9	50,727.8
- Growth (%)	10.2%	44.0%	33.2%	41.8%	57.6%	49.6%	61.5%	20.9%	16.4%	3.5%	3.4%
Total Expenditure	2,845.3	4,023.2	5,107.9	6,751.7	11,097.4	16,642.0	26,935.9	32,640.4	38,090.9	39,497.9	40,924.0
Operating Profit	410.5	664.2	1,134.3	2,099.9	2,848.7	4,221.2	6,748.5	8,086.6	9,330.7	9,569.1	9,803.8
Other Income	1.6	61.3	52.7	74.0	0.0	0.0	0.0	40.0	180.0	540.0	920.0
Subsidy	510.6	745.3	819.4	816.8	1,651.1	2,476.7	4,009.8	4,848.5	5,644.1	5,832.2	6,020.4
EBITDA	922.7	1,470.7	2,006.4	2,990.7	4,499.8	6,697.8	10,758.3	12,975.1	15,154.8	15,941.3	16,744.1
<i>EBITDA (Excl. Subsidy)</i>	<i>412.2</i>	<i>725.4</i>	<i>1,187.0</i>	<i>2,173.9</i>	<i>2,848.7</i>	<i>4,221.2</i>	<i>6,748.5</i>	<i>8,126.6</i>	<i>9,510.7</i>	<i>10,109.1</i>	<i>10,723.8</i>
Depreciation	31.3	36.5	59.6	74.0	318.1	466.8	650.6	851.8	886.8	921.8	956.8
EBIT	891.4	1,434.2	1,946.8	2,916.7	4,181.7	6,231.0	10,107.7	12,123.3	14,268.0	15,019.5	15,787.3
Interest	202.4	167.3	266.8	457.1	517.1	832.1	1,822.1	1,822.1	1,822.1	1,822.1	1,822.1
PBT	689.0	1,266.9	1,679.9	2,459.5	3,664.6	5,398.9	8,285.6	10,301.2	12,445.9	13,197.3	13,965.2
Tax	241.4	429.6	518.4	852.8	1,246.0	1,835.6	2,817.1	3,502.4	4,231.6	4,487.1	4,748.2
PAT Before EI	447.6	837.3	1,161.5	1,606.8	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
- Growth (%)	246.7%	87.1%	38.7%	38.3%	50.5%	47.3%	53.5%	24.3%	20.8%	6.0%	5.8%
Extra-ordinary Items	-0.2	-0.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT	447.5	837.1	1,163.1	1,606.8	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
Ratio Analysis											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
OPM (%)	12.6%	14.2%	18.2%	23.7%	20.4%	20.2%	20.0%	19.9%	19.7%	19.5%	19.3%
EBITDA (%)	28.3%	31.4%	32.1%	33.8%	32.3%	32.1%	31.9%	31.9%	32.0%	32.5%	33.0%
EBITDA % (Excl. Subsidy)	12.7%	15.5%	19.0%	24.6%	20.4%	20.2%	20.0%	20.0%	20.1%	20.6%	21.1%
PBIT (%)	27.4%	30.6%	31.2%	33.0%	30.0%	29.9%	30.0%	29.8%	30.1%	30.6%	31.1%
PAT (%)	13.7%	17.9%	18.6%	18.2%	17.3%	17.1%	16.2%	16.7%	17.3%	17.8%	18.2%
Interest Cover (x)	4.4	8.6	7.3	6.4	8.1	7.5	5.5	6.7	7.8	8.2	8.7
EPS (Rs.)	13.8	16.4	22.8	28.2	38.4	52.5	80.5	100.1	120.9	128.2	135.7
P/E (x)	32.2	27.0	19.4	15.7	11.6	8.5	5.5	4.4	3.7	3.5	3.3
P/BV (x)	9.3	4.7	3.8	2.2	1.5	1.1	1.0	0.8	0.7	0.6	0.5
BVPS (Rs.)	47.5	94.7	115.4	206.2	301.7	389.8	463.3	554.7	665.1	781.6	904.4
Market Cap (Rs. Mn.)	14,430.0	22,609.3	22,609.3	25,273.3	27,937.3	30,157.3	30,157.3	30,157.3	30,157.3	30,157.3	30,157.3
M Cap/Sales (x)	4.4	4.8	3.6	2.9	2.0	1.4	0.9	0.7	0.6	0.6	0.6
EV (Rs. Mn.)	14,673.6	19,553.5	25,303.5	28,831.6	33,156.9	38,526.5	49,878.5	49,735.3	49,934.3	49,870.3	49,690.9
EV/EBITDA (x)	15.9	13.3	12.6	9.6	7.4	5.8	4.6	3.8	3.3	3.1	3.0
EV/Sales (x)	4.5	4.2	4.1	3.3	2.4	1.8	1.5	1.2	1.1	1.0	1.0
ROCE (%)	39.2%	24.6%	19.5%	18.4%	16.9%	17.4%	19.5%	20.9%	21.8%	20.5%	19.3%
RONW (%)	29.0%	17.4%	19.8%	13.7%	12.7%	13.5%	17.4%	18.0%	18.2%	16.4%	15.0%
Debt/Equity Ratio (x)	0.5	0.2	0.7	0.3	0.3	0.3	0.6	0.5	0.4	0.4	0.3
Inventory T/o Days	80.4	175.3	311.1	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Debtors T/o Days	14.5	4.8	4.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Advances T/o Days	142.5	182.4	387.4	300.0	325.0	325.0	325.0	325.0	325.0	325.0	325.0
Creditors T/o Days	114.9	281.6	303.2	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Working Cap T/o Days	174.0	383.8	473.1	369.9	385.8	387.3	377.7	378.0	375.6	376.0	377.1

ABG Shipyard Limited : Financials

Balance Sheet											
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Equity Capital	325.0	509.2	509.2	569.2	629.2	679.2	679.2	679.2	679.2	679.2	679.2
Reserves	1,218.5	4,315.2	5,369.2	11,169.5	18,353.9	25,799.3	30,791.0	36,993.9	44,493.0	52,408.6	60,751.5
Shareholders Funds	1,543.5	4,824.4	5,878.4	11,738.7	18,983.1	26,478.5	31,470.3	37,673.1	45,172.2	53,087.8	61,430.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	730.1	997.0	4,095.8	4,095.8	5,745.8	9,245.8	20,245.8	20,245.8	20,245.8	20,245.8	20,245.8
Deferred Tax Liability	278.3	667.2	1,080.3	1,675.3	2,481.6	3,669.3	5,492.1	7,758.4	10,496.5	13,399.9	16,472.2
Total Liabilities	2,551.9	6,488.6	11,054.5	17,509.8	27,210.4	39,393.6	57,208.1	65,677.2	75,914.4	86,733.5	98,148.8
Fixed Assets	999.7	1,560.4	2,962.8	8,538.8	12,470.7	17,253.9	22,353.3	22,501.5	22,614.6	22,692.8	22,736.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0	4,500.0	13,500.0	23,000.0
Current Assets											
Inventory	717.2	2,251.2	5,320.4	7,275.3	11,462.6	17,147.8	27,685.8	33,474.3	38,976.7	40,329.0	41,694.0
Sundry Debtors	129.5	61.2	81.2	121.3	191.0	285.8	461.4	557.9	649.6	672.1	694.9
Loans & Advances	1,271.4	2,341.8	6,624.6	7,275.3	12,417.8	18,576.7	29,992.9	36,263.8	42,224.7	43,689.7	45,168.5
Cash & Bank Balance	486.5	4,052.8	1,401.5	537.5	526.2	876.5	524.5	667.7	468.7	532.7	712.2
Current Liabilities											
Sundry Creditors	1,025.2	3,615.8	5,185.8	6,062.7	9,552.1	14,289.8	23,071.5	27,895.2	32,480.6	33,607.5	34,745.0
Provisions	27.1	163.0	150.1	175.5	305.7	457.3	738.3	892.6	1,039.4	1,075.4	1,111.8
Net Current Assets	1,552.2	4,928.2	8,091.7	8,971.0	14,739.8	22,139.7	34,854.9	42,175.8	48,799.8	50,540.7	52,412.8
Miscellaneous Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	2,551.9	6,488.6	11,054.5	17,509.8	27,210.4	39,393.6	57,208.1	65,677.2	75,914.4	86,733.5	98,148.8
Cash Flow											
Particulars (Rs Mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Opening Cash & Bank	391.6	486.5	4,052.8	1,401.5	537.5	526.2	876.5	524.5	667.7	468.7	532.7
Profit After Tax	447.5	837.1	1,163.1	1,606.8	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
Investment Income	(1.6)	(61.3)	(52.7)	(74.0)	0.0	0.0	0.0	(40.0)	(180.0)	(540.0)	(920.0)
Interest Paid	202.4	167.3	266.8	457.1	517.1	832.1	1,822.1	1,822.1	1,822.1	1,822.1	1,822.1
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	31.3	36.5	59.6	74.0	318.1	466.8	650.6	851.8	886.8	921.8	956.8
Deferred Taxation	174.6	389.0	413.1	595.0	806.2	1,187.8	1,822.8	2,266.3	2,738.1	2,903.4	3,072.3
Others	21.8	20.1	19.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Working Cap	(873.0)	190.3	(5,814.8)	(1,743.3)	(5,780.0)	(7,049.6)	(13,067.1)	(7,177.7)	(6,823.0)	(1,676.9)	(1,692.7)
CF - Operating Activities	2.9	1,578.9	(3,945.5)	915.6	(1,720.0)	(999.7)	(3,303.1)	4,521.3	6,658.3	12,140.7	12,455.6
Change in Fixed Assets	(94.4)	(617.3)	(1,481.2)	(5,650.0)	(4,250.0)	(5,250.0)	(5,750.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Change in Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1,000.0)	(3,500.0)	(9,000.0)	(9,500.0)
Investment Income	1.6	61.3	52.7	74.0	0.0	0.0	0.0	40.0	180.0	540.0	920.0
CF - Investing Activities	(92.7)	(556.0)	(1,428.6)	(5,576.0)	(4,250.0)	(5,250.0)	(5,750.0)	(1,960.0)	(4,320.0)	(9,460.0)	(9,580.0)
Increase in Equity	(22.7)	2,513.5	(19.7)	4,386.6	5,046.7	4,250.0	0.0	0.0	0.0	0.0	0.0
Changes in Borrowings	409.9	266.9	3,098.8	0.0	1,650.0	3,500.0	11,000.0	0.0	0.0	0.0	0.0

Contact

Hiten Sampat
President - Institutional Sales
email : hiten@ppfas.com
tel : 91 22 2284 6555 Extn 302

Ridhim Thapar
Executive - Institutional Sales
email : ridhim@ppfas.com
tel : 91 22 2284 6555 Extn 312

Jigar Valia
Analyst - Investment Research
email : jigar@ppfas.com
tel : 91 22 2284 6555 Extn 315

Hiren Samani
Research Associate
email : hiren@ppfas.com
tel : 91 22 2284 6555 Extn 206

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Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 023.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : research@ppfas.com

Investment Boutique: Shiv Shakti, Gr. Floor, N. S. Rd. No.10, Opp. Haveli, Juhu Scheme, Mumbai - 400 049

Tel : 91-22- 2623 6555 Fax : 91-22-2623 6553, e-mail : ib@ppfas.com